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## **Bush to Back Off Some Initiatives for Budget Plan**

*By ROBERT PEAR and EDMUND L. ANDREWS*

WASHINGTON, Jan. 31 - President Bush will propose a \$2.3 trillion budget on Monday that backs away from some of the major spending and tax initiatives he supported in prior years, administration officials say.

Constrained by big budget deficits and political realities, the officials said they would retreat on some of their own ideas and oppose others favored by Republicans in Congress.

Mr. Bush will try instead to lock in some of his prior victories, by pressing Congress for a permanent extension of most of the tax cuts adopted in the last three years that were set to expire over the next seven years. He says the tax cuts foster economic growth, which helps create jobs. But many Democrats say the tax cuts are fiscally reckless and widen the gap between rich and poor.

In getting his budget through Congress, the president will face formidable challenges from Senate Democrats who oppose making his tax cuts permanent, from conservative Republicans who want to cut spending more and from lawmakers in both parties who shudder at the prospect of reducing spending on favored domestic programs in an election year.

"We had a very hard time passing a budget resolution last year," said a senior Republican Senate aide. "Things are no better this year - they're worse."

Administration officials said Mr. Bush would not insist on his earlier proposal to overhaul Medicaid, would not push for a big expansion of retirement savings accounts and would not back tax incentives for energy production that he supported last year.

In addition, they said, Mr. Bush will oppose extending a temporary tax break that greatly accelerates the rate at which businesses can depreciate new equipment. The tax provision was enacted in 2002 to stimulate the economy and manufacturers want to retain it. At the same time, the White House is gearing up to oppose Republican plans in Congress for highway spending that far exceed what Mr. Bush wants.

Under fire from Republicans alarmed at the growth of the federal budget in recent years, Mr. Bush called Saturday for new statutory limits on spending.

"To assure that Congress observes spending discipline, now and in the future, I propose making spending limits the law," Mr. Bush said in his weekly radio address. "This simple

step would mean that every additional dollar the Congress wants to spend in excess of spending limits must be matched by a dollar in spending cuts elsewhere."

Mr. Bush did not say who would set the limits or how they would be enforced. Unlike similar rules that governed Congress in the 1990's, Mr. Bush's proposal would not impose restrictions on new tax cuts.

While Congress has often exceeded Mr. Bush's spending requests, fiscal conservatives have complained that he has never vetoed a spending bill.

Congress has repeatedly tried to impose fiscal discipline on itself. Under a 1990 law, for example, it established enforceable limits on certain types of federal spending, which account for more than one-third of the budget. The law also required Congress to pay for any tax cuts or legislative changes that increased the cost of entitlement programs like Medicare and Social Security. Congress allowed these limits and requirements to expire in 2002.

Mr. Bush boasted that he would virtually freeze many domestic programs, with an increase of less than 1 percent for domestic discretionary spending outside of military and homeland security.

But he is proposing an increase of 7 percent for the military, including 13 percent more for missile defense systems; an increase of nearly 10 percent for heightened security against terrorist attacks; and an increase of 11 percent for the Federal Bureau of Investigation.

Those increases and Mr. Bush's determination to make his tax cuts permanent will limit his maneuvering room in other areas.

Mr. Bush pushed hard last year for passage of a sweeping energy bill and ultimately said he would accept legislation that included at least \$23 billion in tax breaks aimed at increasing energy production.

But the bill is stalled in Congress, and this year White House officials are proposing a more modest energy package that omits many of the expensive tax breaks sought by oil and gas producers.

Red Cavaney, president of the American Petroleum Institute, said that support for those tax breaks waned after Congress passed a major expansion of Medicare that was supposed to cost \$400 billion over 10 years. The Bush administration said this week that the cost would be at least \$530 billion.

After the Medicare bill passed, Mr. Cavaney said, "people started to pay closer attention to everything that might put the economic recovery at risk, including the deficit."

White House officials also plan to oppose an extension of the tax break that allows businesses to take an immediate write-off for half the cost of their investment in many kinds of equipment.

Mr. Bush pushed the provision as a temporary measure to stimulate investment, and it is scheduled to expire at the end of this year. Manufacturing companies and many Republicans in Congress want to keep the tax break for several more years. But administration officials are resisting, because it is projected to cost \$285 billion over five years.

This provision "was always intended to be temporary, to give the economy a boost when it needed it most," a White House official said on Friday. With the economy improving, he continued, the need has passed.

Beyond the fiscal constraints, Mr. Bush faces the political constraints of an election year in which it will be difficult for the Republican-controlled Congress to pass major legislation over the objections of Democrats.

In his budget last year, Mr. Bush asked Congress to make sweeping changes in Medicaid, the fast-growing health program for low-income people. Under the plan, if states accepted fixed allotments of federal money, they would have received much more latitude in spending it.

Administration officials viewed such "lump-sum allotments" as a way to streamline Medicaid and control costs. But Democrats and advocates for the poor assailed the proposal, saying it would give states vast new power to reduce or eliminate benefits for low-income people.

Rather than fight that battle in an election year, administration officials said, they have decided to pursue the same goal through negotiations with individual states. That approach would be easier than dealing with Congress, but it would be much less ambitious than Mr. Bush's original idea.

As part of a new "financial management review process," federal officials plan to scrutinize state Medicaid spending more closely than ever before. The goal, they say, is to cut down on abusive schemes used by some states to finance their share of Medicaid.

In another quiet retreat, Mr. Bush is backing away from his proposal for the expansion of retirement savings accounts, which would eventually allow people to shelter most of their investment income from taxes. The proposal will again be in the budget, but administration officials said they did not expect to push the idea this year.

The proposal faces objections from Democrats, influential Republicans and many segments of the financial services industry.

White House officials predict that the budget deficit will climb to more than \$500 billion this year, from \$375 billion last year. Some conservative Republicans are so angry about the soaring deficits that they have begun to threaten rebellion if Mr. Bush does not rein in spending.

For their part, Democrats excoriate Mr. Bush for having already pushed through tax cuts that total more than \$1.7 trillion over 10 years. If the cuts are made permanent, the Congressional Budget Office said this week, the cost would be an additional \$1.2 trillion over 10 years.

Mr. Bush has vowed to cut the deficit by half in five years, but many Republicans in Congress say that is not enough. They want to see the government run a surplus, as it did from 1998 to 2001.

The president's problem is that political pressures for greater spending are high among Republicans and Democrats alike.

Republicans and Democrats on the House Transportation Committee want to spend \$375 billion on highways and mass transit over the next six years. That would be an increase of 72 percent over current levels, and it would exceed the money available from federal gasoline taxes by more than \$100 billion.

Mr. Bush will propose spending \$251 billion, administration officials said, and he has already threatened to veto any attempt to finance the extra spending with an increase in borrowing.